STATE OF ARIZONA

Joint Legislative Budget Committee

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MEETING NOTICE

DATE: Friday, April 6, 2001

TIME: 8:30 a.m.

PLACE: HOUSE HEARING ROOM 4

TENTATIVE AGENDA

- Call to Order

- Approval of Minutes of February 16, 2001.

- EXECUTIVE SESSION
  A. Arizona Department of Administration, Risk Management Services - Consideration of Proposed Settlements under Rule 14.
  B. Arizona Department of Administration - Review of State Employee Health Plans as required under A.R.S. § 38-658A.

- DIRECTOR'S REPORT (if necessary).

1. DEPARTMENT OF HEALTH SERVICES - Consider Approval of Transfer of Appropriations.

2. STATE BOARD OF APPRAISAL - Review of Unanticipated FY 2001 Costs.

3. JLBC STAFF - Report on Calculation of Classroom Site Fund Per Pupil Amounts.

4. SCHOOL FACILITIES BOARD - Review of Sufficiency of Deficiencies Correction Monies with regard to Tourism and Sports Authority.

5. DEPARTMENT OF VETERANS' SERVICES - Review of Proposed Expenditures from the Veterans' Home Contingency Special Line Item.

6. AUTO THEFT AUTHORITY - Review of Expenditure Plan.

7. ATTORNEY GENERAL
   A. Review of Uncollectible Debts.
   B. Review of Allocation of Settlement Monies (Grant Woods v. American Tobacco, Inc.)

8. REPORT ON RECENT AGENCY SUBMISSIONS.
   - Supreme Court - Report on Criminal Case Processing and Enforcement Improvement Fund and the State Aid to the Courts Fund.
   - Arizona Department of Transportation - Local Transportation Assistance Fund Report.
   - Department of Health Services - Report on Tobacco Tax Program Evaluations.
   - Department of Economic Security - Bimonthly Report on Arizona Works.

The Chairman reserves the right to set the order of the agenda.
03/28/01

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DATE: April 2, 2001

TO: Representative Laura Knaperek, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Beth Kohler, Fiscal Analyst

SUBJECT: DEPARTMENT OF HEALTH SERVICES – CONSIDER APPROVAL OF TRANSFER OF APPROPRIATIONS

Request

The Department of Health Services (DHS) requests the Committee approve its request to transfer $360,000 from the Children's Health Insurance Program (CHIP) Direct Services line item to the Administration program operating budget for costs associated with the implementation of No Wrong Door.

Recommendation

The JLBC Staff recommends that the Committee not approve the requested transfer. JLBC approval is not required by statute; however, we believe A.R.S. § 35-173, the statute allowing agencies to transfer funds between and within programs, did not intend for transfers to be used to fund new programs. In addition, the JLBC Staff has concerns that the No Wrong Door initiative does not meet the statutory requirements governing the Medically Needy Account that restrict spending to health care services for people that are medically needy or medically indigent, or for low-income children.

Analysis

The General Appropriations Act provided $1,000,000 from the Medically Needy Account of the Tobacco Tax and Health Care Fund in FY 2001 to DHS for the direct services component of the Children's Health Insurance Program. This program provides grants to contracting qualifying health centers and hospitals to provide health care for children eligible for CHIP who elect to

(Continued)

receive direct, sliding fee scale medical and health care services rather than health care coverage through AHCCCS. DHS reports only $30,000 has been spent since the program's inception and no FY 2000 money was spent. Because DHS does not anticipate spending any FY 2001 monies from the CHIP Direct Services line item, the department has requested to transfer $360,000 to the Administration operating budget for costs associated with the implementation of No Wrong Door.

No Wrong Door is a multi-agency initiative intended to increase citizen access to government programs serving children and families. The first phase of the initiative is intended to allow workers at state agencies to refer individuals to programs for which they may be eligible, but unaware of. In the initial phase of No Wrong Door, departments will develop and maintain a list of state programs serving children and families as well as program eligibility requirements and, when appropriate, refer individuals to programs both within the department and in other agencies. The Government Information Technology Agency has developed a plan to implement the initial phase of No Wrong Door beginning in FY 2001. Although the JLBC FY 2002-FY 2003 budget recommendations included funding for No Wrong Door, the status of the funding in the budget is currently unresolved. Agencies previously agreed to fund FY 2001 development costs for the initiative from their existing budgets. DHS has requested to transfer $360,000 from the CHIP Direct Services line item in the Public Health budget to the Administration operating budget to fund these FY 2001 costs.

A.R.S. § 36-774, which governs the Medically Needy Account, specifies that the monies in the account shall be used to provide health care services for medically needy or medically indigent individuals, or for low-income children. A.R.S. § 36-2921(C) also specifies Medically Needy Account monies may be used for the administrative costs of the programs listed in A.R.S. § 32-2921(A), but limits this amount to 4% of the total cost of each program. We believe that the No Wrong Door initiative does not provide the health care services specified in the statute.

Furthermore, after consulting with Legislative Council, we believe the costs related to No Wrong Door do not fall under the administrative cost provisions of A.R.S. § 36-2921(C). The statute specifically provides for administrative costs to implement the programs listed in subsection A. The scope of No Wrong Door is much broader than the programs listed in subsection A and monies will be used to fund costs related to programs that are not specifically identified in the statute. In addition, because AHCCCS currently transfers to DHS the maximum amount allowed under the statute (4% of program funding), monies would need to be shifted from program administration in order to fund No Wrong Door. Therefore, the JLBC Staff believes that the Medically Needy Account is not an appropriate funding source for No Wrong Door.

A.R.S. § 35-173 allows departments to "transfer spending authority between and within programs" upon approval of the Director of the Department of Administration. The JLBC Staff believes the intent of this provision is to allow transfers from one existing purpose to another – not to establish new programs, as requested by DHS. For these reasons, the JLBC Staff recommends the Committee <u>not approve</u> the requested transfer.

RS/BK:ck

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CHRISTINE WEASON

DATE: March 30, 2001

TO: Representative Laura Knaperek, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Kim Hohman, Fiscal Analyst

SUBJECT: BOARD OF APPRAISAL – REVIEW OF UNANTICIPATED FY 2001 COSTS

Request

The General Appropriation Act appropriated $50,000 or 20% of each 90/10 board's total FY 2001 appropriation, whichever is greater, for unanticipated costs. Each 90/10 board is required to submit the intended use of the monies to the Committee for review. The Board of Appraisal is requesting $80,500 to address higher than expected investigations expenses.

Recommendation

The JLBC Staff recommends a <u>favorable review</u>. This amount would include $2,000 for the Office of Administrative Hearings (OAH) cost allocation plan to be implemented in FY 2001.

Analysis

A footnote in the General Appropriation Act appropriated an additional $50,000 or 20% of the board's total FY 2001 appropriation, whichever is greater, to provide for unanticipated costs the board might face in FY 2001. This footnote was added to the budgets of all 90/10 boards in the Supplemental Bill to provide funding for unanticipated costs. This contingency appropriation allows the board, if faced with unanticipated costs, to access monies without having to request a FY 2001 supplemental appropriation during the regular session. The legislation required the board to submit the intended use of the monies to the Committee for review. Pursuant to the footnote, the Board of Appraisal's contingency amount is $80,500.

The agency was appropriated $100,000 in FY 2000 and $75,000 in FY 2001 for investigation expenses. The monies appropriated for investigations are used for contracted appraisal investigators as well as Office of Administrative Hearings charges. The FY 2001 amount was appropriated at a lower amount, assuming the agency would reduce an existing backlog in FY 2000 and not require the additional monies in FY 2001. However, the reduction in the number of backlog cases has been accompanied with an increase in the number of complaints handled by the board, as well as an increase in the number of complaints directed to investigation. The number of investigations handled by the agency in FY 1999 was 36. During FY 2000, this number had more than doubled to 78 and is remaining constant through FY 2001. Since the average number of investigations is usually between 35 and 40, the board believes this increase to be a surge in complaints that is not likely to continue through FY 2002 and FY 2003. Therefore, the agency's FY 2002 and FY 2003 appropriation of $75,000 should be sufficient to cover investigation expenses.

The board has spent approximately $68,000 of its original $75,000 investigation appropriation as of March 12, 2001 with 43 additional cases pending. There will be additional bills received by the board for cases that are still open, as well as bills for any cases started in the remaining months of FY 2001, including the 43 pending cases.

The 43 pending cases in FY 2001 will cost the board approximately $34,400. The board also has 4 new cases that it expects will require formal hearings with an estimated cost of $3,200. The board has received bills from current cases since March 12 and has reached its FY 2001 appropriation amount. Therefore, the JLBC Staff estimates that the board will require at least $37,600 to handle its investigation workload through FY 2001. It is possible, however, that costs incurred through investigations will exceed this amount. The JLBC Staff recommends a favorable review of the full $80,500 to insure the board will have adequate funding through the end of FY 2001. If actual investigation costs are lower than the agency's contingency funding, the unexpended monies will revert to the Board of Appraisal Fund at the end of FY 2001.

Previously, 90/10 boards paid for Office of Administrative Hearings services out of their base budgets. The OAH billing rates did not reflect actual costs. A General Appropriation Act footnote required OAH to develop a new cost allocation plan. The new plan allocates OAH costs for FY 2001, FY 2002, and FY 2003 based on the actual amount of time spent on each agency in FY 2000. The JLBC Staff has recommended implementing this plan in FY 2001, which results in a cost of $2,000 for the Board of Appraisal in FY 2001. The JLBC Staff recommends funding these additional OAH charges from the contingency footnote.

RS/KH:ck

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HOUSE OF REPRESENTATIVES

DATE: April 2, 2001

TO: Representative Laura Knaperek, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Steve Schimpp, Senior Fiscal Analyst

SUBJECT: JLBC STAFF - REPORT ON CALCULATION OF CLASSROOM SITE FUND PER PUPIL AMOUNTS

Request

A.R.S. § 15-977(B1) requires the JLBC Staff to determine by March 30 of each year the per pupil amount that is to be allocated from the Classroom Site Fund for the upcoming fiscal year. The JLBC Staff requests the committee's advice regarding the per pupil calculation.

Recommendation

The JLBC Staff recommends a Classroom Site Fund allocation of $240.56 per pupil for FY 2002. This amount is based on 3.7% pupil growth in FY 2001 (2.9% for school districts and 14.9% for charter schools) and sales tax growth of 4.0% for FY 2002. While the assumed 4.0% sales tax growth rate is below the historical average, it provides a margin for safety in the calculation. Under current law, the state cannot lower the Classroom Site Fund allocation during the year if sales tax revenues fall short of projections.

For every 1% error in the sales tax calculation, the Classroom Site Fund revenues will increase or decrease by about $3.5 million. If we underestimate sales tax growth, the excess monies will remain in the Classroom Site Fund for distribution in the following year.

Analysis

Laws 2000, Chapter 1, 5th Special Session (the Proposition 301 companion bill) requires the Classroom Site Fund per pupil amount for a given year to be based on the estimated statewide "Group A weighted" Average Daily Membership (ADM) pupil count for the current fiscal year (FY 2001 in this case) and upon estimated available resources in the Classroom Site Fund for the

(Continued)

upcoming fiscal year (currently FY 2002). The discussion below explains why it is not possible to precisely estimate the per pupil Classroom Site Fund allocation at this time, and why Committee input therefore is requested in this matter.

Data Limitations

Under A.R.S. § 15-977(B1 & 2), the amount of per pupil funding that will be available from the Classroom Site Fund in FY 2002 will depend upon 2 factors: 1) ADM counts from the 2000-2001 (current) school year, and 2) 0.6% sales tax deposits (from Proposition 301) into the Classroom Site Fund during FY 2002. Uncertainty exists for both of these data items because grand total statewide ADM counts for the current school year will not be known until late May of this year (2 months from now) and grand total statewide revenues from the 0.6% sales tax under Proposition 301 in FY 2002 will not be know until June 2002 (15 months from now).

It therefore is necessary to designate a per pupil amount from the Classroom Site Fund for FY 2002 based on *estimates* for both FY 2001 ADM counts and FY 2002 sales tax revenues. The rest of this memo describes some possible alternatives for these estimates and what their impact would be on the Classroom Site Fund per pupil amount for FY 2002.

ADM Counts

A.R.S. § 15-977(B1 & 2) require the Classroom Site Fund per pupil amount for FY 2002 to be based on the statewide total "Group A weighted" ADM count from the current school year. The "Group A weighted" reference here refers to "Group A" weights established in A.R.S. § 15-943(2a). Those weights are "generic" ones that apply to *all* pupils within a particular range of grades (e.g., K-8), although they are increased for pupils in districts that are "small" (< 600 pupils) or "isolated" (at least 30 miles from other schools).

We currently estimate that there will be about **1,031,000** "Group A weighted" ADM pupils in school districts and charter schools combined during the current school year (FY 2001). This is based on preliminary "100th day" ADM counts from charter schools for the current year (adjusted by the Department of Education for miscellaneous factors) and on *projected* "100th day" ADM counts for school districts (the same counts assumed in the JLBC recommended supplemental for FY 2001 for the Arizona Department of Education). The latter counts assume 2.9% ADM growth in the current year for school districts, which would result in 3.7% overall ADM growth during FY 2001 once revised charter school estimates are included. Final ADM counts for school districts and charter schools for FY 2001 will not be available until late May. Our 1,031,000 "Group A weighted" ADM count estimate for FY 2001 therefore is subject to revision.

In order to be conservative, we could choose to increase our estimated FY 2001 "Group A weighted" ADM count by a small percentage (a higher ADM count would reduce the per pupil allocation). We recommend, however, using the 1,031,000 "Group A weighted" ADM estimate for purposes of this memo and instead selecting a relatively conservative sales tax growth estimate for the Classroom Site Fund in FY 2002 in order to avoid overbudgeting that fund for FY 2002. This is because the year-to-year growth rate for ADM has typically been between 3.2% to 4.2% in the past few years, which is a much narrower range of volatility than for the sales tax, which has grown anywhere from 0.4% to 9.9% during the past decade (see tables below). The next section describes some suggested alternatives for estimating Classroom Site Fund revenues for FY 2002 under the 0.6% sales tax established by Proposition 301.

(Continued)

Table 1: K-12 Average Daily Membership Growth (FY 1990 through FY 2000).

Fiscal Year	ADM Total	Increase	% Change
1990	589,509	9,545	1.6%
1991	604,763	15,254	2.6%
1992	624,761	19,998	3.3%
1993	646,798	22,037	3.5%
1994	669,742	22,944	3.5%
1995	695,054	25,312	3.8%
1996	723,937	28,883	4.2%
1997	754,450	30,513	4.2%
1998	776,595	22,145	2.9%
1999	803,314	26,719	3.4%
2000	828,627	25,313	3.2%
10-year Average Growth Rate			3.5%

[Note: These data are for *un*weighted ADM because data on *weighted* ADM are not available. Historical growth rates for both, however, would be similar.]

Table 2: State Sales Tax Growth (FY 1990 through FY 2000).

Fiscal Year	General Fund Collections (in Thousands)	% Change
1990	$1,440,588	7.6%
1991	1,445,915	0.4%
1992	1,503,125	4.0%
1993	1,631,354	8.5%
1994	1,792,998	9.9%
1995	1,968,614	9.8%
1996	2,103,275	6.8%
1997	2,211,159	5.1%
1998	2,367,883	7.1%
1999	2,577,171	8.8%
2000	2,829,307	9.8%
10-year Average Growth Rate		7.7%

Sales Tax Revenues

The other factor that will affect per pupil funding from the Classroom Site Fund in FY 2002 is the amount of revenues available from the 0.6% sales tax established by Proposition 301. That tax is scheduled to be implemented starting in June 2001. The Arizona Department of Revenue, however, indicates that only 11 months of revenue will come into the fund during FY 2002 because of lags in receiving and processing monthly sales tax revenues. (The June 2001 collections are not expected to be available for disbursement until mid to late August 2001.) Table 3 below shows our estimates of Classroom Site Fund deposits for FY 2002 (assuming 11 months of disbursements) at various assumed growth rates for the overall state sales tax.

(Continued)

Table 3: Estimated Classroom Site Fund Revenue for FY 2002 at Various Assumed Sales Tax Growth Rates.

Sales Tax Growth Rate Assumed (above FY 2001)	Estimated Revenues from 0.6% Sales Tax	Estimated Revenues into Classroom Site Fund
1%	$412,841,100	$237,594,400
2%	416,928,600	241,068,800
3%	421,016,100	244,543,100
4%	425,103,700	248,017,600
5%	429,191,200	251,492,000
6%	433,278,800	254,966,400
7%	437,366,300	258,440,800
8%	441,453,800	261,915,200
9%	445,541,400	265,389,600
10%	449,628,900	268,864,000

The amounts shown under "Estimated Revenues into Classroom Site Fund" in Table 3 are less than the amounts shown under "Estimated Revenues from 0.6% Sales Tax" in the table because some of the 0.6% sales tax revenues are dedicated first to universities, community colleges, costs of an additional school day for K-12, the School Safety program and other items. The amounts shown in the last column also include an estimated $2,204,400 in revenues from the Permanent State Common Schools Fund. This is because the Proposition 301 companion bill (Laws 2000, Chapter 1, 5th Special Session) dedicates all expendable earnings from that fund beyond FY 2001 levels to the Classroom Site Fund. The $2,204,400 figure is our current estimate of the amount of land trust monies that will be deposited into the Classroom Site Fund in FY 2002 pursuant to Chapter 1.

Possible Per Pupil Amounts

Table 4 below shows what the per pupil amount from the Classroom Site Fund would be for FY 2002 assuming the various sales tax growth rates shown in Table 3. Since we have not incorporated a "safety margin" in our estimate of 1,031,000 "Group A weighted" ADM pupils for FY 2002 (the other determining factor for the per pupil Classroom Site Fund amount for FY 2002), the JLBC Staff recommends that a conservative 4% sales tax growth rate be assumed in computing the per pupil amounts for FY 2002. We believe that it is important to assume a conservative sales tax growth rate because Legislative Council confirms that under current law the per pupil amount for the upcoming budget year cannot be changed once established. In addition, Legislative Council notes that current law is not clear regarding what would happen if the per pupil amount is set too high and the Classroom Site Fund runs a shortfall as a result. This is because current law does not indicate whether such a shortfall would have to be made up and which funding source, if any, would have to be used for this purpose. The March JLBC revenue forecast assumes 7.9% to 8.7% sales tax growth for FY 2002 and the March OSPB budget forecast assumes 7.3% sales tax growth for that year.

Monies in the Classroom Site Fund are exempt from lapsing pursuant to A.R.S. §15-977(B). Therefore any potential unused monies that would remain in the Classroom Site Fund at the end of FY 2002 because of a conservative per pupil allocation for FY 2002 would simply be available for allocation to schools in FY 2003. They would *not* revert to the State General Fund and therefore would *not* reduce long-term allocations to school districts and charter schools under Proposition 301. If actual sales tax growth in FY 2002 equaled 6% rather than 4%, for example (and if our FY 2001

(Continued)

ADM estimate is correct), approximately $6.9 million would remain in the Classroom Site Fund at the end of FY 2002. Those monies would be available for allocation to school districts in FY 2003.

Table 4: Classroom Site Fund Per Pupil Amounts for FY 2002 Under Various Sales Tax Growth Rate Scenarios.

Sales Tax Growth Rate Assumed (above FY 2001)	Estimated Revenues into Classroom Site Fund	Estimated "Group A Weighted" ADM Count from FY 2001	Estimated Funding Allocation per "Group A Weighted" ADM Pupil from FY 2001
1%	$237,594,400	1,031,000	$230.45
2%	241,068,800	1,031,000	233.82
3%	244,543,100	1,031,000	237.19
4%	**248,017,600**	**1,031,000**	**240.56**
5%	251,492,000	1,031,000	243.93
6%	254,966,400	1,031,000	247.30
7%	258,440,800	1,031,000	250.67
8%	261,915,200	1,031,000	254.04
9%	265,389,600	1,031,000	257.41
10%	268,864,000	1,031,000	260.79

Possible Per Pupil Amounts Under Proposed Amendment

Members of the education community indicate that they will be seeking to amend A.R.S. § 15-977 during the current legislative session in order to allow school districts and charter schools to spend 12 months of 0.6% sales tax collections during FY 2002, even if only 11 months of collections are actually received and "posted" during that year. Our understanding is that the amendment would *not* require State General Fund revenues to be used to pay for the "12th month," but that school districts instead would cover the shortfall temporarily with existing cash balances in county-level school district accounts. (School district revenues typically are processed and disbursed through county treasurers and monies for individual school districts are "pooled" together into single funds, but with separate accounts maintained for each individual school district. The "pooled" county level funds typically have positive cash balances due to monies that school districts are allowed to carry forward at the end of a fiscal year and for other miscellaneous reasons.)

Our understanding is that the proposed amendment would have the state "pay back" the county level funds during the subsequent year with Classroom Site Fund collections from that year. The proposed amendment also would make the Arizona State Schools for the Deaf and the Blind (ASDB) and the Arizona Department of Juvenile Corrections (ADJC) eligible for Classroom Site Fund monies. The latter change would have a minimal impact on the per pupil amount because these two entities represent less that 0.5% of the statewide ADM count.

In addition, the Senate Engrossed version of SB 1481 (which would be modified by the proposed amendment) would change the computational formula in A.R.S. § 15-977 by having the per pupil amount be based on *unweighted* rather than *weighted* counts and by using "*student* counts" rather than "*ADM* counts" in the formula. "Student counts" essentially mean *prior* year ADM counts for school districts and *current* year ADM counts for charter schools. "ADM counts," in contrast, mean *current* year counts for both charter schools and school districts. Under the K-12 equalization funding formula (but not the current Classroom Site Fund formula), charter school funding is based entirely on *current* year ADM but school district funding is based primarily on *prior* year ADM.

(Continued)

Table 5 shows what the Classroom Site Fund per pupil amount would be under the proposed amendment based on our understanding of it at this time under various sales tax growth rate scenarios. Since the proposed amendment is not in final form as of the time of this writing, there has not been an opportunity to have it reviewed by legal counsel or by the various agencies that would have to interpret the proposed amendment language.

Table 5: Classroom Site Fund Per Pupil Amounts for FY 2002 Under our Current Understanding of the Proposed Amendment and Under the Same Sales Tax Growth Rate Scenarios Shown in Table 4.

Sales Tax Growth Rate Assumed (above FY 2001)	Estimated Revenues into Classroom Site Fund	Estimated Unweighted Student Count for FY 2002	Estimated Funding Allocation per Unweighted ADM Pupil for FY 2002
1%	$269,495,700	866,139	$311.15
2%	273,286,000	866,139	315.52
3%	277,076,300	866,139	319.90
4%	280,866,500	866,139	324.27
5%	284,656,800	866,139	328.65
6%	288,447,000	866,139	333.03
7%	292,237,300	866,139	337.40
8%	296,027,600	866,139	341.78
9%	299,817,800	866,139	346.15
10%	303,608,100	866,139	350.53

Finally, the JLBC Staff recommends that the committee be consulted for further advice if any legislation is enacted into law that would change the Classroom Site Fund formula for FY 2002. Legislative Council indicates that this could occur if such legislation contained both an emergency clause and a notwithstanding clause regarding the March 30th statutory date in A.R.S. § 15-977(B1) for determining the Classroom Site Fund per pupil amount for the upcoming fiscal year.

RS:SSC:jb

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DATE: March 28, 2001

TO: Representative Laura Knaperek, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Patrick Fearon, Senior Fiscal Analyst

SUBJECT: SCHOOL FACILITIES BOARD - REVIEW OF SUFFICIENCY OF DEFICIENCIES CORRECTION MONIES WITH REGARD TO TOURISM AND SPORTS AUTHORITY

Request

The School Facilities Board (SFB) wishes to certify that sufficient monies have been dedicated to the Deficiencies Correction Fund to bring Arizona's school districts up to the board's minimum facility adequacy standards. This certification is required before the State Treasurer may transfer revenues from increased car rental surcharges and hotel taxes to the tourism and sports authority established by Proposition 302, passed by Maricopa County voters in the general election of November 2000. Proposition 302 requires the JLBC to review the SFB's certification.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review to the SFB certification. Both the JLBC and Executive's budget recommendation, in combination with revenue bonding and prior year monies, provide enough monies to fund the board's current estimate of resolving the deficiency corrections.

Analysis

Proposition 302 created a Tourism and Sports Authority to oversee the construction and operation of a multipurpose facility that will primarily be used to host sporting events, including professional football games. The Authority will finance the facility by issuing revenue bonds backed by income from increased car rental charges and hotel taxes. In addition, the Authority will oversee capital issues related to Cactus League baseball and the construction of youth recreational facilities.

Proposition 302 prohibits the State Treasurer from distributing the increased tax revenues to the Authority until the SFB certifies that sufficient monies are dedicated to the Deficiencies Correction Fund to bring Arizona's public schools up to the board's minimum school facility adequacy standards, pursuant to A.R.S. § 15-2021. The SFB provides that certification in the attached letter.

(Continued)

Estimated Cost of Deficiencies Correction. In March 2001, the SFB presented a revised estimate of $1,078,124,200 for resolving all school facility deficiencies based on statewide assessment data from Arizona school districts. A breakdown of this estimate is presented in Table 1. The revised estimate probably is more accurate than the preliminary estimate of approximately $1,171,000,000 released by the SFB last year because many program elements (such as "emergency deficiencies" and "space deficiencies") have now been bid or even completed. It nonetheless contains a 2% cushion for contingencies. The final funding requirements for deficiencies correction will not be known, however, until all required projects are bid and under way.

Table 1

Revised Cost Estimate for
Deficiencies Correction Program

Deficiencies Correction	$ 794,615,700
Networking	100,000,000
Impact on Market (8%)	63,569,300
Equipment Purchases	55,000,000
Project Management	47,676,900
Margin of Error (2%)	15,892,300
Operations	1,370,000
Total	**$1,078,124,200**

Funding Mechanism. To date, deficiencies correction has been funded by General Fund appropriations and special non-appropriated "transfers" from Transaction Privilege Tax (TPT) revenues. Under Proposition 301 (Education 2000), approved in the November 2000 general election, these traditional sources of funding will be supplemented by up to $800,000,000 in revenue bonds in FY 2002 and FY 2003. To provide the certification in the attached letter, the board relies on the availability of the TPT transfers and the revenue bonds. These sources are discussed further below.

- **TPT Transfers.** By December 1 of each even-numbered year, the board reports to JCCR regarding the estimated amounts needed for Deficiencies Corrections in the following 2 fiscal years. By December 1 of each odd-numbered year, the board provides an update to JCCR regarding the estimated amount needed for the 2nd year of the biennium. By January 1 of each year, the board instructs the State Treasurer of the TPT amount to be credited in the following fiscal year to the Deficiencies Correction Fund. The amount to be credited is not subject to the legislative appropriation process, and is not capped.

- **Revenue Bonds**. Under Proposition 301, $800,000,000 of the projected deficiencies correction cost now can be funded with School Improvement Revenue Bonds. Debt service on the bonds will be paid out of revenues generated by a 0.6% increase in the state sales tax. Although the board believes that some technical issues currently would preclude issuing the bonds, it expects those issues to be resolved during the current legislative session. The board believes that it will be able to issue the first tranche of bonds in the first week of June 2001. If the technical issues regarding the bonds are not resolved, the board would require greater TPT transfers.

In addition to the TPT transfers and revenue bonds, the current FY 2002 and FY 2003 budget proposal (the green sheet) includes transfers of $12,000,000 in General Fund monies and $15,000,000 outstanding in the School Capital Equity Fund for deficiencies correction in FY 2003. The SFB will receive approximately $16,000,000 in federal "School Renovation Grants." The table below indicates that these additional funds, together with earlier funding for deficiencies correction, would essentially cover the current estimated cost of the program.

(Continued)

Table 2

Funding Breakdown for Deficiencies Correction

Prior Year Funds	$ 233,790,000
Proposition 301	800,000,000
FY 2003 General Fund Transfer	12,000,000
FY 2003 Transfer from School Capital Equity Fund	15,000,000
FY 2003 Federal School Renovation Grants	16,000,000
Total Funding	**$1,076,790,000**

The identified funding sources would be insufficient to cover the deficiencies correction program only if the current estimated cost of the program proves too low or if a funding source is eliminated. Because of its ability to instruct the State Treasurer to transfer TPT funds, however, the board controls its own funding and could cover any shortfall unless the Legislature intervenes.

RS/PF:jb

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DATE: April 3, 2001

TO: Representative Laura Knaperek, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Indya Kincannon, Fiscal Analyst
Pat Mah, Senior Fiscal Analyst

SUBJECT: DEPARTMENT OF VETERANS' SERVICES – REVIEW OF PROPOSED EXPENDITURES FROM THE VETERANS' HOME CONTINGENCY SPECIAL LINE ITEM

Request

The Department of Veterans' Services requests Committee review to spend $300,000 from the Veterans' Home Contingency Special Line Item in order to cover unexpected costs associated with nurses' stipends. Specifically, the department requests to transfer $300,000 as shown below:

TRANSFER FROM:		TRANSFER TO:	
Veterans' Home Contingency		Personal Services	$264,800
Special Line Item	$300,000	Employee Related Expenditures	35,200
TOTAL	$300,000	TOTAL	$300,000

Recommendation

The JLBC Staff recommends that the Committee give a favorable review to this request. The transfer request is in accordance with the purpose of the contingency special line item and, without the transfer, the department will not be able to meet its payroll obligations at the end of FY 2001.

Analysis

Laws 1999, 1st Special Session, Chapter 1, Section 105 (as amended by Laws 2000, 2nd Regular Session, Chapter180), requires the Committee to review all proposed expenditures from the Veterans' Home Contingency Special Line Item. The department proposes to spend $300,000 from the Home's Contingency Special Line Item to meet FY 2001 payroll expenses. Under its current level of spending authority, the Veterans' Home will not have sufficient funds to cover the expected payroll costs. There are sufficient funds in Veterans' Home Contingency Special Line Item to make the transfer, and the projected shortfall constitutes an appropriate use of the contingency monies.

(Continued)

The Veterans' Home has had difficulty hiring and retaining nurses for several years and has had to hire temporary nurses, who are more expensive than staff nurses, from the nurse registry in order to adequately staff the Veterans' Home. To address this problem, the department began to offer recruitment and retention stipends to nurses at the Veterans' Home in April 2000. The department intended to absorb the cost of the stipends by reducing its nurse registry costs. However, the department mismanaged the implementation of the stipend and ended up over-paying some nurses during the last quarter of FY 2000. This overpayment resulted in a budgetary shortfall. In August 2000, the JLBC favorably reviewed the department's request to transfer $34,500 from the Veterans' Home Contingency Special Line Item to cover the unexpected shortfall in FY 2000.

The overpayment also forced the department to reduce the stipend amount in subsequent months in order to recoup the losses. The department has now corrected its payment of nurses' stipends and, according to a January 2001 letter from the Arizona Department of Administration (DOA), has recouped all but $2,300 of the overpayments. ADOA also conducted an audit of the department's Human Resources Division and determined that the inappropriate payments were isolated to the stipend implementation and that otherwise the division was acting in accordance with ADOA personnel rules and generally accepted policies and procedures. The amount of the implemented stipend varies by type of position, from $1.64 per hour to $3.47 per hour above base hourly wages

Due in part to the difficulties in implementing the nurses' stipend starting in FY 2000, and in part to the time it took to realize the effect of such a stipend, the FY 2001 stipend costs exceed the FY 2001 registry savings. As a result, the department is requesting a transfer of $300,000 from the Veterans' Home's Contingency Special Line Item to cover the shortfall.

The department believes that in FY 2002 registry savings will exceed stipend costs. However, the department does not track the cost of the stipend separately from the overall payroll cost. The department's total payroll costs also vary because of numerous factors, such as overtime hours, number of payrolls in a month, and vacancies, so increases in payroll are only partly attributable to nurse stipends.

Nevertheless, the available evidence suggests that the stipend program will be cost effective in FY 2002. Since the implementation of the stipend, average monthly nurse registry costs have fallen from $95,800 to $50,400, a 47% drop. Simultaneously, average monthly nurse payroll costs have risen from $292,100 to $364,400, a 25% increase. According to the agency, since the nurse stipend has been up and running properly, turnover and vacancies are down, retention and morale are up, and consistency in resident care has improved. It appears likely that these trends will continue in FY 2002, resulting in net savings from the stipend program. The table below summarizes the impact of the nurses' stipends at the Veterans' Home through February, 2001.

Impact of Nurses' Stipend at Veterans' Home

	Pre-stipend	Post-stipend	Change	% Change
Average monthly registry costs	$95,800	$50,400	$(45,400)	(47)%
Average monthly payroll costs	$292,100	$364,400	$72,300	25%

For the reasons outlined above, the JLBC Staff recommends a favorable review of this request.

RS/IK/PM:ss

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Joint Legislative Budget Committee

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DATE: April 3, 2001

TO: Representative Laura Knaperek, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Tony Vidale, Fiscal Analyst

SUBJECT: AUTOMOBILE THEFT AUTHORITY – REVIEW OF EXPENDITURE PLAN

Request

The Automobile Theft Authority (ATA) requests Committee review of its expenditure plan to spend an additional $287,200 pursuant to a footnote in the General Appropriation Act (Laws 1999, 1st Special Session, Chapter 1). The footnote allows ATA increased expenditure authority from its own fund if it collects excess revenue from the insurance policy assessment. ATA must submit an expenditure plan to the Committee for review prior to expending the monies.

Recommendation

The JLBC Staff recommends a favorable review of the request. The ATA has collected excess revenue above the limits set in the footnote and is requesting to expend the monies on a grant to the Task Force. The expenditure plan follows the intent of monies appropriated to the ATA.

Analysis

The ATA awards grants to state and local agencies to combat vehicle theft and promote successful methods of reducing auto theft in Arizona and is primarily funded from motor vehicle insurance premium fees. The major recipient of funds from the ATA is the ATA Task Force. Administered by the Department of Public Safety (DPS), the Task Force provides technical expertise, training, and investigative support to law enforcement agencies targeting vehicle theft and related crimes. Members of the Task Force come from various state, county and local law enforcement agencies. The ATA Task Force reimburses county and local law enforcement agencies for the expenses of participating officers.

(Continued)

Prior to FY 2000, the ATA accumulated large past due balances from insurers due to problems communicating a change in assessment methods. A footnote in the *FY 2000 and FY 2001 Appropriations Report* allows for additional expenditures up to $287,200 in the event additional revenues are collected in excess of $2,325,000. As of February 28, 2001, the ATA had collected $3,284,000 from its assessment on auto insurance policies. The agency has been able to collect more revenues than anticipated due to better collection efforts and is requesting review of their expenditure plan for the additional revenue.

The agency plans to expend the additional $287,200 on a grant to the Arizona Vehicle Theft Task Force to reimburse local law enforcement agencies for on-going operations. County and local law enforcement agencies are reimbursed on a quarterly basis throughout the fiscal year for the expenses of participating officers. In FY 1999, revenue collections from vehicle insurance premiums were insufficient to cover operating expenses for the Task Force. The Task Force delayed reimbursement to county and local law enforcement agencies for 1 quarter to cover expenses and has since remained on this schedule. The additional monies will allow the ATA to reimburse county and local law enforcement for the expenses of participating officers in a timely manner. Since its inception in FY 1998, the Task Force has recovered an estimated $60,553,000 in stolen property with 853 felony arrests. This expenditure plan follows the intent of monies appropriated to ATA and the JLBC Staff recommends a favorable review.

RS/TV:ag

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DATE: March 30, 2001

TO: Representative Laura Knaperek, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Gina Guarascio, Senior Fiscal Analyst

SUBJECT: ATTORNEY GENERAL - REVIEW OF UNCOLLECTIBLE DEBTS

Request

Pursuant to A.R.S. § 35-150(E), the Attorney General requests that the Joint Legislative Budget Committee review its FY 2000 listing of uncollectible debts referred to the Attorney General for collection.

Recommendation

The JLBC Staff recommends a favorable review of the request. The report appears to meet the requirements of A.R.S. § 35-150(E).

Analysis

The Attorney General's Collection Enforcement unit functions as a collection service for past due debts owed to state agencies, boards and commissions. The unit returns 65% of collected monies to the client agencies. While the Collection Enforcement unit is able to collect monies from many individuals and businesses that owe monies to the state, for a variety of reasons, some debts are uncollectible. In the past, there has been no procedure to "write-off" uncollectible debt, so they continued to be carried in the state's accounting system. Laws 1999, Chapter 300 created a procedure for the State Comptroller to remove uncollectible debts from the state accounting system, after receiving annual notice of uncollectible debt from the Attorney General and review by the Joint Legislative Budget Committee. This request represents the first of these annual reports.

The Attorney General's Office reviewed the cases assigned to the Collection Enforcement Unit. Based on this review, the Attorney General advises that $7,638,412 owed to the state is uncollectible. Included as uncollectible are those monies that will not be recovered due to debtor bankruptcy, settlement, insufficient resources of the debtor, or the inability to locate the debtor. Of this amount,

(Continued)

approximately 74% are debts that were owed to three agencies, the Arizona Department of Revenue, the Industrial Commission, and the Registrar of Contractors. The remaining 26% are debts owed to 24 other state agencies. The Attorney General's Office is unable to estimate whether the FY 2000 uncollectible debt will prove to be average amount. According to the Attorney General's Office, a variety of factors will influence this amount, including the condition of the economy.

Uncollectible Debt Recommended for Write-Off by Client Agency

	Amount Recommended for Write-Off	Percentage
Arizona Department of Revenue	$2,862,691	37%
Registrar of Contractors	1,748,320	23%
Industrial Commission	1,050,386	14%
All Others	1,977,015	26%
Total	$7,638,412	100%

The JLBC Staff recommends a favorable review of this report.

RS:GG:ck

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DATE: March 30, 2001

TO: Laura Knaperek, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Gina Guarascio, Senior Fiscal Analyst

SUBJECT: OFFICE OF THE ATTORNEY GENERAL – REVIEW OF ALLOCATION OF SETTLEMENT MONIES (GRANT WOODS V. AMERICAN TOBACCO, INC.)

Request

Pursuant to a footnote in the General Appropriation Act, the Attorney General requests review of the allocation of funds received pursuant to a case settlement.

Recommendation

The JLBC Staff recommends a favorable review of this request. The allocation plan appears to be reasonable and provides for reimbursement of actual expenses.

Analysis

The FY 2000 and FY 2001 General Appropriation Act contains a footnote that requires Joint Legislative Budget Committee review of the allocation or expenditure plan for settlement monies over $100,000 received by the Attorney General or any other person on behalf of the State of Arizona. In November of 1998, the Attorney General reached a settlement with the tobacco industry in which Arizona will receive about $2.8 billion over the first 25 years. In addition, the settlement provided for reimbursement of the Attorney General's in-house costs and attorneys' fees, to be paid separately by the tobacco industry. This request deals with the allocation of the attorneys' fees portion of the tobacco settlement.

As part of the tobacco settlement, the National Association of Attorneys' General (NAAG) was designated as the mechanism for review of expenses and determination of payment related to

(Continued)

attorneys' fees. NAAG reviewed the expenses submitted by the Attorney General's Office and determined that $1,160,064 was due to the state for reimbursement of these costs pursuant to the agreement. The Attorney General's Office proposes the following allocation of these monies:

Attorney General --	
Consumer Fraud Revolving Fund	$494,168
Anti-Trust Revolving Fund	424,452
Anti-Racketeering Revolving Fund	73,168
Department of Revenue (DOR)	109,000
Arizona Health Care Cost Containment System (AHCCCS)	36,525
Department of Health Services (DHS)	22,750
TOTAL	**$1,160,064**

The allocations to DOR, AHCCCS, and DHS were based on actual costs paid by these agencies during the course of the tobacco settlement litigation. To determine the allocation among the Attorney General's funds, the Attorney General first reimbursed each fund for actual expenses incurred during the tobacco settlement litigation. The remainder was divided between the Anti-Trust Revolving Fund and the Consumer Fraud Revolving Fund.

The Anti-Trust Revolving Fund is used to support the on-going operations of the Economic Competition Unit of the Attorney General's Office. Attorneys' salaries, however, are excluded by statute from being paid from this fund. The Consumer Fraud Revolving Fund is used to support the Consumer Protection and Advocacy Unit, which reviews and responds to consumer fraud complaints. The fund supports investigators, but as with the Anti-Trust Revolving Fund, the salaries of attorneys may not be paid from this fund.

The lawsuit filed against the tobacco industry by the Attorney General including counts relating to consumer fraud and anti-trust violations of statute. While it is impossible to determine the relative importance of each of these charges in the final settlement reached with the tobacco industry, JLBC Staff believes it is reasonable to assume that the counts relating to consumer fraud and anti-trust violations influenced the final settlement. Therefore, the allocation plan submitted by the Attorney General appears reasonable, and the JLBC Staff recommends a favorable review of the Attorney General's allocation plan for monies received pursuant to the attorneys' fees component of the tobacco settlement.

RS/GG:ck

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DATE: April 2, 2001

TO: Representative Laura Knaperek, Chairman
Members, Joint Legislative Budget Committee

FROM: Richard Stavneak, Director

SUBJECT: REPORT ON RECENT AGENCY SUBMISSIONS

Request

The JLBC has received a number of statutorily required reports during the past month. Each report is briefly described below.

Recommendation

The reports are for information only and no Committee action is required. We do not intend to discuss the reports at the JLBC meeting unless a member has a question. If any member knows in advance that they will have questions, we would appreciate knowing that before the meeting so as to ensure the relevant agency is available.

Reports

1) <u>Supreme Court - Report on Criminal Case Processing and Enforcement Improvement Fund and the State Aid to the Courts Fund</u>

The Supreme Court is required to report on the Criminal Case Processing and Enforcement Improvement Fund and the State Aid to the Courts Fund yearly by January 8, 2001. The report includes progress of criminal case processing projects in each Arizona county, as well as the expenditure of the State Aid to the Courts Fund monies for the prior fiscal year. The report also includes an evaluation of statewide court collection efforts for FY 2000. In FY 2000, statewide court revenue collections increased by 2.7% while case filings increased by 1.4%. In the area of restitution, the courts reported an increase in collections by 6.3% from FY 1999 to FY 2000. Lastly, the report identifies three statewide strategic projects to improve court collections: 1) administering the Judicial Collection Enhancement Fund and Traffic Case Processing Fund, 2) working with the Arizona Judicial Enforcement Network to identify "best practices", and 3) developing a section of the Court Order Enforcement Standards manual to highlight the best collection practices from around the state and the nation.

2) Arizona Department of Transportation - Local Transportation Assistance Fund Report

A.R.S. § 28-8103 requires the Arizona Department of Transportation (ADOT) to submit an annual report on the allocation of certain Local Transportation Assistance Fund monies by January 1st of each year. We received ADOT's report on March 14, 2001. ADOT reports that they allocated the statutory maximum of $18,000,000 from the Local Transportation Assistance Fund in FY 2000 to counties and local governments, including 83% for transit capital and operating projects and 17% for other transportation purposes.

3) Department of Health Services - Report on Tobacco Tax Program Evaluations.

Pursuant to A.R.S. § 36-2907.07, the Department of Health Services (DHS) is required to evaluate the programs funded from the Medically Needy Account of the Tobacco Tax and Health Care Fund and to submit an annual report on these evaluations to the Committee by November 1 of each year. The FY 2000 Annual Report contains evaluations of 17 programs funded from the tobacco tax. DHS reports that since 1996, almost $139 million has been allocated from the Medically Needy Account to 62 providers. The funds are used for a variety of health care programs, including Primary Care Programs, Health Facilities Construction, Telemedicine, the AIDS Drug Assistance Program, and Behavioral Health Services.

In past years, the JLBC Staff has expressed concerns that, although the annual report has contained detailed data about the programs funded through the Tobacco Tax, it typically has not provided actual evaluations of the effectiveness or outcomes of the programs. The FY 2000 report contains program data and information on utilization for 17 major program areas but does not provide sufficient evaluations of the effectiveness or efficiency of the programs, as required by A.R.S. § 36-2707.07.

Most of the program evaluations focus on the number of clients served and the services utilized but lack information about whether the programs are meeting their stated goals and objectives. Although A.R.S. § 36-2707.07 does require DHS to report information on client demographics and the services offered by each program, the statute also requires the department to estimate "the benefits and effects of providing health care services to persons who cannot afford those services or for whom there would otherwise be no coverage." In many cases, the program's outcomes are measured as the number of services provided rather than how well the programs are meeting the goals of providing services to individuals who have no other sources of health care coverage.

We recognize that, for some programs, the evaluations are limited due to lack of data and incomplete reporting. The report contains recommendations to improve data collection and reporting methods that should make future evaluations more comprehensive. The department has indicated willingness to work with the JLBC Staff to improve future evaluations of the Tobacco Tax programs.

4) Department of Economic Security - Bimonthly Report on Arizona Works.

As the vendor for the state's Arizona Works pilot welfare program, MAXIMUS is required to report bimonthly on Arizona Works. It submitted its latest report on March 15. Total caseloads in Arizona Works decreased 5.4% from July to January; over the same period of time, welfare caseloads in the rest of Maricopa County increased 9.7%. The report also indicates that the contract for the expansion of the pilot into Mohave County, scheduled for January 1, 2001, is still pending.

RS:lm